

Gonsalves, Mark

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE INDEX NO. 99-371-KAJ

_____ x 09:38:48 AM
IN RE: ADAMS GOLF, INC. 09:38:48 AM
CONSOLIDATED SECURITIES LITIGATION 09:38:48 AM
_____ x 09:38:48 AM

DEPOSITION OF MARK GONSALVES

(Taken by Plaintiff)

June 6, 2006

9:30 AM

09:38:48 AM

09:38:48 AM

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Reported by: Arne' Davis, CCR-Huseby No: 7299

09:38:48 AM

Page 26

1 authorized retailer of Adams; is that correct? 10:33:18 AM
 2 A. That is correct. 10:33:21 AM
 3 Q. How many clubs did MVP Sports receive 10:33:26 AM
 4 by way of this trans-shipment, please? 10:33:31 AM
 5 A. I don't remember. 10:33:39 AM
 6 Q. In view of the fact that, according to 10:33:47 AM
 7 this memo, MVP Sports was advertising it must 10:33:49 AM
 8 have been more than a handful of clubs, I gather; 10:33:55 AM
 9 is that your understanding? 10:34:00 AM
 10 MR. BESSETTE: Calls for speculation. 10:34:02 AM
 11 A. I can't go there only because retailers 10:34:04 AM
 12 are fairly notorious for advertising a product 10:34:06 AM
 13 they have very limited quantity to provide 10:34:11 AM
 14 traffic to their store. I'm not sure of the 10:34:14 AM
 15 intent of that advertisement. 10:34:17 AM
 16 Q. That's fine. 10:34:20 AM
 17 In this paragraph you say: We called 10:34:30 AM
 18 them to task, that is, King Par, for the 10:34:33 AM
 19 trans-shipment. 10:34:37 AM
 20 What does that mean? 10:34:38 AM
 21 A. Having that been my words, I would say 10:34:46 AM
 22 what I was doing at that time was addressing our 10:34:50 AM
 23 non trans-shipment policy to King Par. 10:34:59 AM
 24 Q. When you say, addressing to King Par, 10:35:09 AM
 25 do you mean you simply informed King Par of that 10:35:11 AM

Page 27

1 policy? 10:35:14 AM
 2 A. That would be correct. I informed 10:35:15 AM
 3 them. I'm not sure at this point who at King Par 10:35:20 AM
 4 I would have spoken with, but that would have 10:35:24 AM
 5 been correct. It would have been their buyer, I 10:35:30 AM
 6 would say. 10:35:37 AM
 7 Q. Do you know who that was? 10:35:39 AM
 8 A. I think he was a large fat man. I'm 10:35:42 AM
 9 not good with the names but really good with 10:35:56 AM
 10 physical traits of people. 10:35:58 AM
 11 Q. How did the large fat man react? 10:36:01 AM
 12 A. Nothing I can recall was any behavior I 10:36:06 AM
 13 thought was unusual. 10:36:12 AM
 14 Q. This large fat man, I gather he was the 10:36:15 AM
 15 buyer on behalf of King Par, correct? 10:36:20 AM
 16 A. That would be correct. 10:36:23 AM
 17 Q. That was an employee of King Par? 10:36:24 AM
 18 A. I believe so. 10:36:29 AM
 19 Q. Did the buyer, when you called him to 10:36:29 AM
 20 task, express surprise at the existence of any 10:36:33 AM
 21 such no trans-shipment policy? 10:36:39 AM
 22 A. I can't remember the specifics of the 10:36:42 AM
 23 conversation. 10:36:43 AM
 24 Q. Now, you referred a moment ago to the 10:36:46 AM
 25 no trans-shipment policy. When was that policy 10:36:53 AM

Page 28

1 created? 10:36:57 AM
 2 A. As a company, we have or had -- I don't 10:36:58 AM
 3 know what they do now, but there was a document 10:37:05 AM
 4 that we would provide to customers in regard to 10:37:08 AM
 5 our policies, pricing and the fact that they're 10:37:13 AM
 6 selling to the end user, the golfer, but they're 10:37:20 AM
 7 not to be re-sold in a trans-shipment type 10:37:24 AM
 8 manner. When that document became a formal 10:37:27 AM
 9 document, that I don't recall, but it would have 10:37:32 AM
 10 been -- I don't recall. 10:37:38 AM
 11 There was a document. When it came 10:37:46 AM
 12 into being, I'm not sure. It would have been as 10:37:48 AM
 13 we were starting to develop our brand. Prior to 10:37:51 AM
 14 that, there was no need for a document because we 10:37:54 AM
 15 had no customers. At some point, it came into 10:37:57 AM
 16 being so that we were able to be clear with our 10:38:01 AM
 17 customer base. 10:38:05 AM
 18 Q. Was this document in being as March 10:38:10 AM
 19 27th, 1998? 10:38:15 AM
 20 A. That is a good question. 10:38:18 AM
 21 Q. Was it in being as of July 9th, 1998? 10:38:20 AM
 22 A. I don't remember when the document came 10:38:25 AM
 23 into being. 10:38:26 AM
 24 Q. Was the document relayed or transmitted 10:38:31 AM
 25 to authorized retailers once it came into being? 10:38:35 AM

Page 29

1 A. That would have been correct. 10:38:42 AM
 2 Q. How would that transmission have gone? 10:38:43 AM
 3 A. To my recollection, we did a mailing to 10:38:48 AM
 4 our customers, and I believe and you may want to 10:38:50 AM
 5 check with the credit department on this, but I 10:38:57 AM
 6 believe our invoices at one point in time created 10:38:59 AM
 7 that document. 10:39:04 AM
 8 Q. By that document, you're referring to a 10:39:05 AM
 9 statement that trans-shipment of sales to anyone 10:39:07 AM
 10 other than an end user is prohibited? 10:39:13 AM
 11 A. That would have been one of the points 10:39:17 AM
 12 in that document, words to that effect. 10:39:18 AM
 13 Q. Now, as of March 27th, 1998, was there 10:39:21 AM
 14 any policy as to what would be what Adams Golf 10:39:26 AM
 15 would do if an authorized retailer trans-shipped? 10:39:32 AM
 16 A. Because I don't remember when that 10:39:54 AM
 17 document came into being, that's a difficult 10:39:55 AM
 18 question to answer. I don't know the timeline of 10:39:57 AM
 19 that. 10:40:02 AM
 20 Q. Once the document you referred to came 10:40:09 AM
 21 into being what, if anything, was the sanction, 10:40:10 AM
 22 if an authorized dealer trans-shipped? 10:40:13 AM
 23 A. We would have addressed what we 10:40:18 AM
 24 perceived to be the trans-shipment and restate 10:40:21 AM
 25 our policy. To my knowledge, we would have -- I 10:40:27 AM

Page 122

1 Q. Did you encourage them to take 02:36:48 PM
 2 advantage of that opportunity and make a 02:36:50 PM
 3 purchase? 02:36:52 PM
 4 A. Again, I think, it's kind of like 02:36:54 PM
 5 picking your wife. It's got to be an individual 02:36:57 PM
 6 decision. 02:37:01 PM
 7 All I was simply providing was the 02:37:02 PM
 8 opportunity for them to participate if they so 02:37:04 PM
 9 chose. 02:37:08 PM
 10 (Whereupon a break ensued at 2:39 PM 02:42:07 PM
 11 to 2:45 PM) 02:42:01 PM
 12 Q. (By Mr. Collins) I have given Mr. 02:42:07 PM
 13 Gonsalves the Exhibit 57, and I presume you've 02:45:32 PM
 14 seen it before but I'll ask you to take a moment 02:45:35 PM
 15 to look over it. Let me know when I can ask a 02:45:39 PM
 16 question. 02:45:43 PM
 17 A. Okay. 02:48:41 PM
 18 Q. Have you seen these two pages before? 02:48:42 PM
 19 A. Yes. 02:48:44 PM
 20 Q. Was this memo sent to you on or about 02:48:45 PM
 21 August 14, 1998? 02:48:48 PM
 22 A. Yes. 02:48:51 PM
 23 Q. May I ask your reaction to this when 02:48:57 PM
 24 you received it? 02:48:59 PM
 25 A. My reaction was taken in context with 02:49:00 PM

Page 123

1 the person who sent it to me. 02:49:04 PM
 2 Q. Which means what? 02:49:09 PM
 3 A. Which means, Barney is at times able to 02:49:11 PM
 4 allow his emotions to distort his thinking on 02:49:23 PM
 5 certain topics. So I took that in context as 02:49:31 PM
 6 related to the content of the memo. 02:49:38 PM
 7 Q. Did you make any writing in response to 02:49:41 PM
 8 this? 02:49:43 PM
 9 A. Not that I know of. I'm sure I spent 02:49:45 PM
 10 time with him in regard to this memo. 02:49:48 PM
 11 Q. Do you know George Klaus? 02:49:56 PM
 12 A. I know of him; I don't know him. 02:49:59 PM
 13 Q. Did you talk to George Klaus about this 02:50:01 PM
 14 memo or the subject matter? 02:50:03 PM
 15 A. Not to my knowledge. 02:50:06 PM
 16 Q. On Point A on Page 1, that's a 02:50:12 PM
 17 subjective statement but it says: The department 02:50:18 PM
 18 staff, presumably refers to Inside Sales staff, 02:50:21 PM
 19 has very low morale. 02:50:28 PM
 20 Was that accurate statement as of 02:50:31 PM
 21 August 1998. 02:50:32 PM
 22 A. I believe that for certain individuals 02:50:34 PM
 23 that may have been an accurate statement. 02:50:37 PM
 24 Q. Why, please. 02:50:41 PM
 25 A. I think that for a few reasons. I 02:50:42 PM

Page 124

1 think one is the commission plans were changed a 02:50:49 PM
 2 number of times as the company continued to gain 02:50:58 PM
 3 more and more momentum. So I think that 02:51:02 PM
 4 potentially had something to do with it. 02:51:05 PM
 5 I think Number 2, is that prospectus 02:51:08 PM
 6 pretty clearly illustrates who is going to gain 02:51:12 PM
 7 what. At the time, people could take out a 02:51:20 PM
 8 calculator and figure out what people's newfound 02:51:23 PM
 9 paper wealth was, and I think there may have been 02:51:26 PM
 10 some feelings because of that and I think, 02:51:29 PM
 11 thirdly, I think there was some friction between 02:51:35 PM
 12 departments and sales. 02:51:39 PM
 13 Q. The second point, were you referring to 02:51:50 PM
 14 the decline in the stock price post IPO, to pull 02:51:52 PM
 15 out a calculator and determine -- I didn't 02:51:58 PM
 16 understand? 02:52:01 PM
 17 A. When the IPO came out, it showed the 02:52:01 PM
 18 holdings of the individuals, the officers and so 02:52:05 PM
 19 on. So a person could determine their newfound 02:52:10 PM
 20 worth of those individuals. 02:52:13 PM
 21 Q. I understand. 02:52:16 PM
 22 So -- 02:52:18 PM
 23 A. Everything I just told you is 02:52:19 PM
 24 speculation on my part, but it's what I believe. 02:52:21 PM
 25 Q. The third point you raised was a 02:52:24 PM

Page 125

1 conflict between departments and sales? 02:52:27 PM
 2 A. Yes. 02:52:29 PM
 3 Q. What did you mean? 02:52:30 PM
 4 A. I think in most companies there is a 02:52:31 PM
 5 natural conflict between Sales and Credit as an 02:52:33 PM
 6 example, Sales and Order Entry. Sales is viewed 02:52:38 PM
 7 as a more lucrative profession by those that are 02:52:45 PM
 8 not necessarily in it. 02:52:50 PM
 9 Q. Point C: They know cheating, at least 02:52:59 PM
 10 in the form of double shipments occurs and our 02:53:08 PM
 11 concern is quietly endorsed. 02:53:13 PM
 12 What is your reaction to that 02:53:18 PM
 13 statement? 02:53:19 PM
 14 MR. BESSETTE: At the time? 02:53:23 PM
 15 MR. COLLINS: Yes. 02:53:24 PM
 16 A. At the time, I knew of no activity. 02:53:24 PM
 17 There was no evidence that has ever been 02:53:27 PM
 18 presented to me that would make me believe Letter 02:53:29 PM
 19 C was correct. 02:53:32 PM
 20 Q. Jay Graeney was an Inside Sales 02:53:36 PM
 21 associate? 02:53:40 PM
 22 A. Yes. 02:53:41 PM
 23 Q. Were there complaints from customers 02:53:42 PM
 24 about his activities? 02:53:43 PM
 25 A. I think there were complaints that 02:53:52 PM